

Message Text

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DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: CHANCELLOR HEALEY IN PARLIAMENTARY DEBATE ON
GOVERNMENT'S ECONOMIC POLICIES

1. CHANCELLOR OF THE EXCHEQUER HEALEY, IN OPENING A DEBATE
TUESDAY ON THE GOVERNMENT'S ECONOMIC POLICIES REAFFIRMED
THE PRINCIPLES ON WHICH THE IMF APPLICATION WAS MADE AND
REVIEWED THE PROSPECTS FOR SOME BASIC ECONOMIC VARIABLES.

2. HE SAID THAT THE MEASURES AIMED AT REDUCING INTEREST
RATES TO ENCOURAGE INDUSTRY. HE SAID, "I HAVE MADE CLEAR
NOT ONLY THAT THE GOVERNMENT, BUT THE IMF AND OUR MAJOR
FRIENDS ABROAD ALL AGREE THAT OUR BALANCE IS APPROPRIATE
FOR THE CIRCUMSTANCES IN WHICH WE FIND OURSELVES. INTER-
EST RATES CAN BE GOVERNED BY MANY FACTORS BUT EVEN IF
THEY ARE SET ON A STEADY DECLINE, THAT DECLINE WILL BE
SLOW AT FIRST, GATHERING PACE IN THE LATTER HALF OF THE
NEXT YEAR." HE NOTED FURTHER THAT THE JUDGMENT OF THE
MARKETS HAD BEEN FAVORABLE, POINTING TO LAST THURSDAY'S
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STOCK MARKET RALLY AND THE TUESDAY EXHAUSTION OF THE LONG
TAP.

3. HE ASSERTED THAT ACHIEVING A 1 BILLION POUND CUT IN
THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) SOLELY
THROUGH CUTS IN PUBLIC SECTOR MANPOWER WOULD HAVE RE-

QUIRED A 2 BILLION POUND CUT IN PUBLIC EXPENDITURE AND AN INCREASE OF 500,000 UNEMPLOYED BY THE END OF 1977. THE GOVERNMENT'S PROGRAM ACCOMPLISHED THE SAME DECREASE IN THE PSBR AT THE COST OF ONLY 30,000 ADDITIONAL UNEMPLOYED

4. HE NOTED THAT UNEMPLOYMENT WOULD INCREASE IF FOR NO OTHER REASON THAN 750,000 PEOPLE WOULD BE ADDED TO THE LABOR FORCE DURING THE NEXT 5 YEARS. THE EXACT UNEMPLOYMENT FORECAST WAS HOWEVER A HIGHLY UNCERTAIN NUMBER. HE NOTED THAT THE FISCAL MEASURES ALONE WOULD RAISE UNEMPLOYMENT BY 40,000 BY THE END OF 1977 AND 100,000 BY THE END OF 1978, BUT FELT THAT SPECIFIC EMPLOYMENT CREATING MEASURES WOULD ADD 50,000 EXTRA JOBS TO MORE THAN OFFSET THE 1977 MEASURES. HE REMARKED THAT THE IMF FELT THAT FALLING INTEREST RATES AND A MORE STABLE POUND RESULTING FROM INCREASED CONFIDENCE WOULD EXPAND AGGREGATE DEMAND SUFFICIENTLY TO OFFSET THE DEPRESSING EFFECTS OF THE CUTS IN THE PUBLIC SECTOR BORROWING REQUIREMENT. THIS VIEW WOULD SEE UNEMPLOYMENT LEVELING OFF TOWARD THE END OF 1977 AND FALLING STEADILY THEREAFTER.

5. HE STRESSED THAT ALTHOUGH IT WAS ESSENTIAL TO REDUCE THE LEVEL OF DIRECT TAXATION ON LOWER AND UPPER INCOME RECIPIENTS THAT THE SCOPE FOR CARRYING OUT SUCH REDUCTION WAS RESTRICTED BY THE NEED TO HOLD THE PUBLIC SECTOR BORROWING REQUIREMENT ON TARGET AND TO FINDING THE RIGHT PAY POLICY WHEN THE CURRENT INCOMES POLICY PHASE ENDED THIS JULY. SPIERS

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